

The Foreign Policy Centre

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About the authors

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Lucy Neville-Rolfe is Director of Corporate Affairs at Tesco plc. External appointments include the CBI Europe Committee, UNICE Task Force on Enlargement and the Boards of EuroCommerce and the British Retail Consortium. She is a non-executive Director of the Foreign Office. Lucy joined Tesco from the Cabinet Office in 1997. She was Director of the Deregulation Unit under Michael Heseltine and with Lord Haskins who transformed it under New Labour.

Is there a future for European farming?

Chris Haskins

The Foreign Policy Centre



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Is there a future for European farming?

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The CAP and consumers

Tesco's involvement in this project reflects our commitment to the debate on the future of food production, farming and rural communities.

We believe we have an important contribution to make because:

- We are the largest customer of UK agriculture, and believe we understand better than anyone else the millions of consumers on which farming depends. We serve 12 million customers a week, and our success is built on listening to customers and providing them with quality, value and choice. We look at what our customers say and what they do, how they behave and why. The customer is the common thread that links everything we do, including how we approach agriculture and rural policy.
- In addition to the UK and Ireland in the EU, we operate in nine other markets. Four of these are Central European Candidates for EU Enlargement: Poland, Hungary, the Czech Republic and Slovakia.

We strongly believe that the future of farming, the CAP and rural communities depends on reconnecting farmers to consumers. The CAP, and predominantly but not exclusively production-orientated subsidies, have for too long acted as a barrier between farmers and customers. There are many excellent innovative and market-orientated practices in farming. But market signals about what customers want are still not getting through to many farmers. Some farmers have focussed too heavily on how to increase income from EU subsidies. This has caused farming to divert its energies from consumer-focused activities.

We believe that the reform must above all be rooted in developing a clear understanding across the whole food chain of what is driving the consumer. Our research on customer behaviour identifies a number of trends which we believe must be addressed in farming policy. For example:

- Customers' tastes vary, depending on age, size of household, location and other factors. There is no such thing as the 'average' customer. Farming must be flexible to respond to this reality.
- A smaller share of income is spent on food today. Customers are spending an ever decreasing share of their income on food (1968=26% and 1999=17.5%) and the food services sector in the UK has become almost as large as food retailing. Like other industries, farming must innovate and add value if it is to thrive.
- Consumers lifestyles are changing. Consumers want more organic food and healthy food.

- Lifestyles and customer attitudes are changing. There are more small households (including single households) and the population is ageing. All consumers attach an increasing value to time – average times spent on meal preparation have decreased from around 2 hours to around 20 minutes. Demand for convenience foods, such as chilled ready meals and pre-packed salads, is increasing.
- Longer term changes in eating habits seem to be a result of health concerns. Whilst red meat consumption is on a long-term decline, we are identifying alternative opportunities for farmers, for example, where there is significant growth in the sale of organic and other 'healthy' and cosmopolitan foods. Farming must respond to this with the right products.
- Customers want value for money and availability. Consumers are very price sensitive and they want produce that is readily available.
- Customers want safe and healthy food. Consumers rank both of these issues highly and place them above their concerns for animal welfare or the environment.

We believe that any genuinely effective reform programme must therefore ensure:

- Greater communication of customers' needs and desires between the elements of the supply chain. Tesco has helped in improving communication links by assisting in the development of producer groups between suppliers and processors. We are also giving support to one of the key recommendations in the Policy Commission on Farming and Food: the establishment of a permanent Food Chain Centre facilitated by the Institute of Grocery Distribution. This will help ensure that consumer messages are translated into increased marketing opportunities for the farming sector.
- Less concentration on output-based subsidies and, instead, a greater focus on developing market opportunities.
- Best Practice is encouraged. We support the proposed aim of the Food Chain Centre to identify and share best practice to improve efficiency in each sector. Tesco has already established a centre of excellence on organic R&D at Newcastle University to improve standards of organic production. We are also sponsoring the Food Animal Initiative at Oxford University Farm, which is demonstrating the commercial application of sustainable farm systems that benefit animal welfare, the environment and human health.

We support the objectives behind the European Commission's current proposals on CAP reform. But we believe that these objectives will only genuinely be met when reformers go further than simply measuring whether their proposals meet the consumer interest.

A truly reformed CAP must start with a fundamental understanding of what consumers want and build from it.

Lucy Neville-Rolfe
Tesco

About the project

Two great challenges face Europe in the next few months – the opening up of the EU to the East with the admission of 11 new and poorer members, and the opening up of European markets to the poorer countries of the world at the Doha trade talks. Most people agree with the objectives – but there are great problems in getting there.

The thirty year old Common Agricultural Policy, based on protectionism and market-distorting subsidies, must be radically reformed to allow for a successful enlargement of the European Union. If fairer trade with poor countries is a goal, then the CAP's protectionist barriers to trade in food and its destructive dumping of food surpluses on world markets will have to be eliminated.

The purpose of this project has been threefold. First, we have sought to see the problem through the eyes of European taxpayers, consumers, environmentalists, policy-makers and, particularly, farmers in order to mobilise European opinion towards an agreed reform agenda. Second, we have attempted to point out why the time has never been more propitious for tackling reform. And finally, we have drawn up a political route map showing how these reforms should be achieved to allow for a successful enlargement of the EU.

In order to do this, we have held seminars in Berlin, Warsaw and Paris. One of our researchers is Danish, and we have had contributions from several other member states, as well as the Commission. In the past, British advocates of CAP reform have concentrated too much on their national priorities and taken little heed of concerns elsewhere.

We suggest that good European agricultural policies should satisfy the following criteria:

1. Farmers in Europe should continue to be supported but the present system of market subsidies and protectionist barriers must be phased out.
2. Policies should encourage a culture of enterprise among European farmers with state support being earned rather than given as a right.
3. Policies should ensure an ample supply of safe, affordable, and nutritious food.
4. European support for farming should be directed towards policies that preserve the environment, contribute to thriving rural economies and meet other social objectives, recognizing the particular needs of rural communities which, for reasons of location, climate or soil, cannot compete effectively in a free market.
5. European policies should give national and regional governments flexibility to address local environmental and social needs whilst ensuring that local interventions do not distort the effectiveness of the European single market.
6. In developing its policies, the EU institutions and national and regional governments should involve all aspects of government – environmental, trade, consumer, social and foreign affairs, tourism and finance as well as agriculture – and ensure that discussion reflects the interests of all stakeholders. Reform should form an integral part of the post-Nice agenda.
7. Agricultural reform should be compatible with the interests of the new EU members.

8. The EU should pursue an international approach to the regulation of scientific innovation in agricultural and food production.
9. Pursuing agricultural reform on the basis of the above principles should enable the EU to adopt a proactive and positive approach to further trade liberalization in the WTO. This will involve the abolition of export subsidies, the lowering of tariff barriers and the opening up of European food markets to fairer competition from elsewhere.

This is the second paper in a series of four. The papers, which can be ordered from Central Books (99 Wallis Road, London, E9 5LN, tel: 020 8986 5488), include:

How to reform the Common Agricultural Policy

by Jack Thurston (September 2002)

Jack Thurston is the former special adviser in the Ministry for Agriculture Fisheries and Food. In this first paper, he looks at how reform of the CAP might actually happen and presents a route-map for reform, setting out practical steps towards that end.

The new European rural policy

by Vicki Swales (October 2002)

Vicki Swales, Head of Agricultural Policy at the Royal Society for the Protection of Birds, makes practical suggestions about the implementation of reform policies and questions whether the so-called second pillar of the CAP can be effective in its current form.

The changing nature of European farming

by Chris Haskins (November 2002)

In the third report, Chris Haskins, former Chairman of Northern Foods and adviser to the British and Irish governments on rural recovery, examines whether, in the light of discussions about CAP reform, there is a future for farming in Western Europe.

The benefits of CAP reform

by Jonny Trapp Steffensen (November 2002)

Jonny Trapp Steffensen is a CAP specialist and Conservative party candidate in Denmark. In this final report, to be published online at www.fpc.org.uk, he contrasts the effectiveness of the small, highly motivated farming interest which is against reform with the inertia of a wide number of interests who would benefit from reform.

Acknowledgements

This is more of an essay than a piece of research – bringing together a number of the ideas that have been collecting in my head in my various roles as Rural Recovery Co-ordinator, as Chairman of Northern Foods, and as a farmer myself. It plays a part in a bigger project, which I have directed on behalf of The Foreign Policy Centre, setting out an ambitious agenda of research on the reform of the Common Agricultural Policy.

I would particularly like to thank my fellow researchers, Jonny Trapp Steffensen, Vicki Swales and Jack Thurston, for their useful and insightful papers. I'd also like to thank Tom Arbuthnott and Mark Leonard at The Foreign Policy Centre for all their hard work, also all the others at The Foreign Policy Centre who had a hand in making the project happen: Kate Arthurs, Jane Grassie, Rob Hailey, Andrew Small, Veena Vasista and Claire Wring. Many thanks too to Michael Franklin for his patience and diligence in commenting on drafts.

I would also like to thank all those who attended and gave so much help during our seminars in France, Germany and Poland, especially our partner organisations CEPII, NABU and the Institute for Public Affairs. Thanks, especially, to Tesco, the RSPB, Northern Foods, Nils Taube and John Hodson for their support for the project.

Chris Haskins
November 2002

Foreword

The Foreign Policy Centre is an independent think tank launched by the British Prime Minister Tony Blair (Patron) and the then foreign secretary Robin Cook (President) to broaden debates about foreign policy in the UK and internationally. The Centre seeks to develop approaches to policy which help foster a global community committed to democracy, human rights and social justice. Integral to this agenda is research and analysis into the effectiveness and legitimacy of international systems and institutions.

We are delighted to publish this report by Chris Haskins. Agriculture is set to become a key battleground for global politics. Commitments to liberalise agricultural trade are at the centre of creating a fairer and more equal relationship between North and the South – as well as putting renewed pressure on the transatlantic alliance. But successive attempts at reform have been blocked by the ability of well-organised lobbies to dominate the policy agenda at a national level. This report, and its companions, set out an innovative approach to the problem – looking at the practical steps Europe can take to put its house in order and ‘reform the unreformable’.

Tom Arbuthnott and Mark Leonard

The Foreign Policy Centre
November 2002

1 Introduction

As the European Union contemplates a significant enlargement eastwards and a substantial reduction of market subsidies and protectionist barriers in agricultural products, many of its farmers fear that they can not survive. Indeed, despite the high level of subsidies they currently enjoy, many are already suffering the worst decline in income for generations, and the number of farmers is reducing rapidly.

The main reason for the current difficulties lies in the collapse of global agricultural commodity prices, with Ukraine, for example, prepared to sell wheat at £45 per tonne, where British and American farmers would expect about £80. The euro's strength against non-dollar currencies puts EU farmers at a serious disadvantage. British farmers in particular have suffered as the pound has strengthened against the euro, from an equivalent of 1.35 in 1994 to around 1.60 today. The distortion of the system caused by the CAP and these exchange rate issues have led to remarkable results, with English wheat being exported to New York in September 2002 because it is cheaper than grain produced on the prairies. Furthermore, the McSharry reforms in 1992 substantially reduced the levels of market subsidy, albeit replacing them with direct payments based on hectareage farmed and numbers of livestock.

The European market for beef has been devastated by BSE, which shook consumer confidence in the product, whilst at the same time farmers had to absorb much higher costs because of regulation. Exports of beef have been badly affected. The Foot and Mouth epidemic in Britain proved very costly, although most affected farmers received substantial compensation. The EU pig industry has been devastated by disease and cyclical oversupply. There are understandable concerns that rigorous and costly environmental, food safety, animal welfare and

workplace regulations put European farmers at a serious disadvantage against developing world producers and manufacturers. Farmers fear that they will go the way of the European textile industry, which has been decimated by cheap imports.

Figure 1: Total income from farming per head in the UK at 2000 prices (£)



Source: DEFRA

Therefore there is no doubt that European farmers are less wealthy, relative to those working in other sectors of the economy, than they were thirty years ago, although in absolute terms they are much better off. Figure 1 shows the decline in farmers' incomes in the UK. In the post-war years, where most people in Europe were poor, farmers were

probably not suffering less than others. Because food was still in short supply as a result of the war, they were encouraged, through subsidies, to produce as much food as they could. For the most part, food was marketed locally, from local sources, at local prices. Because people were poor, they were still prepared to do unpleasant manual farm work.

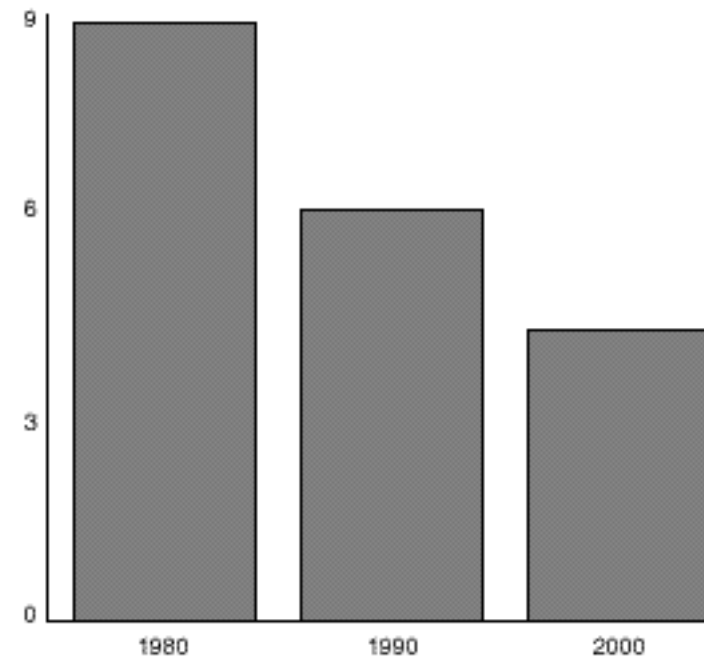
But now food is in abundant supply, and EU farmers find their production restricted by a complicated system of quotas and ‘set-aside’ regulations. Most European shoppers use national supermarkets rather than local shops and these supermarkets use their buying power, including their capacity to source cheap supplies both across the EU and from outside it, to drive down prices. As a result, the producer dominance of the market has disappeared and in today’s world the consumer is ‘king’. Fifty years ago, perhaps half of people’s disposable income in Western Europe was spent on food. Today that figure is less than 15%, and less than 10% in Britain and Germany.

Until very recently most people in Britain used food as a source of fuel to provide the energy necessary for work and survival. This remains the situation in the developing world. But over the past fifty years the affluent West, living sedentary rather than physically active lives at work and play, has seen food as a convenient form of indulgence, leading to, among other things, an alarming increase in obesity – reduced demand for fatty food, especially, is bad for farmers.

Ironically, although the numbers engaged in farming have declined significantly (see Figure 2), European farming, more than any other industry, suffers from labour shortages, as those who, a generation ago, would have been prepared to harvest vegetables in all kinds of weather, and with considerable physical demands, now find more attractive work elsewhere. Furthermore, at a time when great alarm is expressed about the possible consequences of mass migration into the EU, the domestic labour-intensive sectors of European farming – horticulture, fruit, vegetables, pigs, and poultry – would not survive if

they could not access migrant labour from Eastern Europe. For example, it has been difficult to find workers needed for labour-intensive industries such as poultry, fruit and vegetables, and pigs – pigs and poultry do not attract EU subsidies. Although this has been partly alleviated by allowing in large numbers of migrant labourers from Eastern Europe, countries like Thailand and Brazil have developed a strong position in Europe’s poultry markets due to their access to an abundance of cheap labour. A further example is the competition from Columbia and Ecuador against the Dutch cut-flower market.

Figure 2: Employment in the agricultural sector as a percentage of total civilian employment in the EU-15



Source: Adapted from figures produced by the European Commission

The huge reduction in European beef and pig herds has in turn reduced the domestic demand for animal feed, thereby forcing European arable farmers to rely more and more on export markets which are highly competitive and volatile. Although export subsidies are still available, they are much reduced as a result of the McSharry reforms in 1992. European feed grain producers have not benefited from the rise in demand for poultry, because, as already mentioned, this market is being increasingly satisfied by imports from Asia and South America.

Although compared with other sectors farming has suffered badly over the last forty years, real incomes have nevertheless risen substantially. The peasant way of life was based on self-sufficiency in food and heat, with little capacity to buy more than the essentials of life. In 1960, the majority of farmers in France, Spain, Italy, Portugal, Ireland, and even Germany, could have been classified as peasants. Elsewhere, in Britain, Denmark and Holland, the peasant tradition had disappeared and the larger family farms, selling their livestock products into urban markets, were already prosperous.

However, much has changed since then. Although the peasant way of life is still a feature of the poorer Mediterranean countries, it has largely disappeared elsewhere. And even where they do survive, today's peasants demand the right to a TV, a fridge and a motor car. It is difficult to satisfy these expectations if the farm holding is only five or ten hectares in size, yet 55% of all EU farms are less than five hectares and a further 12% less than ten.

Incidentally, this peasant farming tradition still prevails in most of the new applicants for EU membership, though even there the farmers are also demanding the same consumer goods that others take for granted.

2 How farmers have reacted to changed circumstances

Against this difficult background, it is surprising that farming in the EU has survived as well as it has done, having to cope with lower prices, rising costs and stiffer regulations. There are five main reasons why this is so.

First, agriculture still enjoys enormous state support, amounting to perhaps 40% of the income of arable, dairy, beef and sheep farmers. Without this support very large numbers of farms would not be viable in existing market conditions.

Second, farmers have benefited from extraordinary scientific and technological developments. Innovations in plant and animal breeding, in disease control of plants and animals and in controlling weeds and pests, have transformed crop yields per hectare, litreage output per cow, piglet numbers per sow and growth rates of livestock for human consumption. Costs of production have been dramatically reduced by the mechanisation of many traditionally labour-intensive farm activities. The modern combine harvester can cover thirty hectares a day, perhaps ten times as much as a generation ago – and the speed of harvesting, as well as reducing costs, enables farmers to cope far better with the vagaries of the weather. The fork-lift truck has eliminated most of the manhandling on farms. Modern automatic milking parlours enable one man to milk 300 cows, perhaps five times more than previously.

Third, farms have been getting much larger, as the more enterprising farmers have exploited the technology which enables them to manage more land and more livestock with fewer people. In my own case, over

the past twenty years I have bought land from seven neighbours and our hectareage has risen from 80 to 300 as a result.

Fourth, whilst many farmers today are suffering severe declines in their incomes, their assets continue to retain their value. Partly this is because the farmers themselves keep prices high because of their zeal for acquisition. Furthermore, in overpopulated countries like England and the Netherlands, and where farms are close to large urban conurbations, the demand for land for housing and industrial purposes is incessantly rising and so are prices. Farmers who own their land, therefore can always sell up and retire comfortably, whilst those who want to expand can often sell smallish plots for development and use the resulting profits to buy more land, often without having to pay any capital gains tax. In uncertain global financial markets land remains a safe investment. Banks have been willing to support farmers during these difficult times because of their asset backing. Borrowers are also enjoying the lowest interest rates for a generation. If the cost of borrowing had remained at the level of a decade ago, land prices would have collapsed and many more farmers would have gone out of business. In the EU, 30% of farmers do not own their land, and therefore do not have the security which their landlords enjoy. I shall come to this point later.

Finally, most farmers have proved remarkably resourceful in changing their way of life in the face of these changing circumstances. This is perhaps most evident from the decline in numbers, as sons and daughters, benefiting from a modern education, have been able to find more attractive work in towns and cities.

Many farmers, and especially their wives, have found part-time work in nearby towns, mainly in the service industries, to supplement their farm incomes. The growing affluence of town and city dwellers has provided opportunities for farmers and others in the countryside to diversify into tourism. French and Italian farmers have redeveloped

their properties and rented them to affluent holidaymakers. In England, Cumbria, Cornwall and the Yorkshire Dales have benefited from a huge increase in year-round short visit tourists. In Poland huge numbers of Warsaw citizens holiday in the Silesian countryside.

In many countries farmers have been able to convert redundant buildings into non-farming business activities, although planning regulations in overpopulated countries like Britain inhibit opportunities for diversification. The British government, responding to a serious housing shortage, aims to build 60% of new houses on greenfield sites, yet refuses to classify redundant farm buildings as brownfield. The IT revolution enables farmers to participate in activities which would have been denied them previously because of geographical location.

In Mediterranean countries, and to a lesser extent in France, people have a strong loyalty to good quality, locally produced food, which is in ample supply. In Britain, efforts are being made to develop markets, but the culture and quality of the marketing proposition for local people is often inadequate.

Finally, with varying degrees of success, European farmers have co-operated with each other in lowering costs through bulk buying. They share each others machinery to reduce costs, and they work together to market their products, including investing in primary processing. Experiences vary from country to country. In Denmark the progressive dairy and pig industry, including processing, is controlled by farmers' co-operatives. The thriving Dutch produce and horticulture market is controlled by the growers. French farmers market their grain through co-operatives. One of the reasons why British farmers are in such distress is that they have a poor record on co-operation, resulting in higher costs and weak marketing.

3 The way forward

Let me now suggest that even if market subsidies are eliminated, as I believe they should be, there is still a viable future for European farming despite increased competition from outside, despite competitive disadvantages because of cost, despite many regions suffering from unfavourable climate and soil, and remoteness from the market and despite many flawed farm structures, particularly with regard to tenant farmers.

Many economists point, falsely, to the New Zealand experience as the way forward. There the huge cost of state support became unbearable, and was virtually phased out. Yet farming has survived, even if there are much fewer but larger farms as a result. However, New Zealand farmers have benefited from a continuous devaluation of the currency, good for them but not at all good for the rest of the economy. As a result, New Zealand which a century ago was amongst the six most prosperous countries in the world is now languishing well down the world's GDP per capita league table (17th, just ahead of Greece and Portugal and behind Taiwan). Argentina, from a similar position, has become a basket case, with GDP per capita less than half that of New Zealand.

It would be unrealistic to expect a similar devaluation of the euro against the other world currencies, so European farmers will have to look elsewhere for relief from present problems.

The first reassurance to EU farmers is that, while production subsidies should disappear if radical CAP reform should be agreed, the Commission's Mid Tern Review reforms envisage on-going substantial taxpayer support for the countryside, at about 80% of existing levels. Admittedly this support would have to be earned by farming in an

environmentally sustainable way, unlike the present payments which are an automatic right. While EU taxpayers are increasingly dissatisfied with the cost of production subsidies, they could be persuaded to continue to pay farmers for looking after the countryside.

Next, if the dumping of surpluses on the world market by the EU and America were banned, then it seems likely that global agri-commodity prices would rise – to the benefit of all the world's farmers, including those in Europe. (It is assumed that North America would abandon its protectionist farm policies at the same time as the EU).

It would be logical to eliminate production restraints at the same time as market subsidies. This would enable European farming, like any other industry, to expand and exploit benefits of scale, while farming in an environmentally friendly way.

There are fears that this would lead to overproduction and a collapse in prices, and if that happened, agricultural markets would have to adjust to that situation just as others have had to. But the existing CAP encourages farmers to cultivate land that is not suitable for crops, and to carry too many animals on their land. No such incentives would apply in future, which would reduce the EU's arable hectareage and its animal numbers.

The Fischler proposals also include a switch in a system that is biased in favour of large farmers to one which favours the smaller ones. This would be both equitable and reassuring to the smaller farmer, who would be less able to benefit from expansion in a less regulated market.

In an open global food market, free from protectionist barriers, European farmers fear that they could not compete with those in the prairies of North America, the pastures of New Zealand and Australia, and the sugar-cane farms of the Tropics, but there are four reasons why this may be less worrying than it appears.

First, there are many regions of Europe which, for reasons of climate and soil, should be competitive in world markets. Arable farmers in the Paris basin, in Schleswig-Holstein and in Eastern England should be able to grow cereals as well as anyone. (Though the elimination of the particularly unfair sugar beet subsidies in the EU and the US, would probably make that crop unviable). Milk producers in Southern Ireland and Normandy should compete with the world. Vegetable growers in Brittany, Valencia and Lincolnshire should survive, assuming of course they can find workers for the more arduous jobs, increasingly from the new EU members in the East.

Second, the majority of farmers in the EU have a huge advantage over their global competitors because they are so close to nearly 400 million affluent consumers who want a secure and safe supply of perishable, short shelf-life food in their shops and supermarkets. Whilst it is possible for New Zealand farmers to supply Europe with long-life butter and milk powder, they cannot possibly service the growing market in short life dairy products, including fresh milk, yoghurts and desserts and soft cheeses. Increasing concern about food safety in Europe is a market advantage for EU farmers who should be able to reassure their local customers more easily than their competitors producing food thousands of miles from the market. Demand for fresh food changes rapidly, depending on the weather, which again enables European farmers to respond quickly to such changes in a way which is impossible for those who are thousands of miles away from the market.

Higher costs incurred by European farmers because of regulations covering the environment, food safety and animal welfare, can be used as an opportunity to increase market share by building greater consumer confidence in both the product and the farm practice. The Finnish experience is interesting. For about a quarter of a century the Finns have been increasing farm standards through costly regulation, in a country whose climate already placed their farmers at a competitive

disadvantage. Yet, to a remarkable extent, Finnish farmers have maintained and increased their share of the domestic market, even though their prices have to be much higher, because Finnish shoppers trust the domestic product more than the imported one.

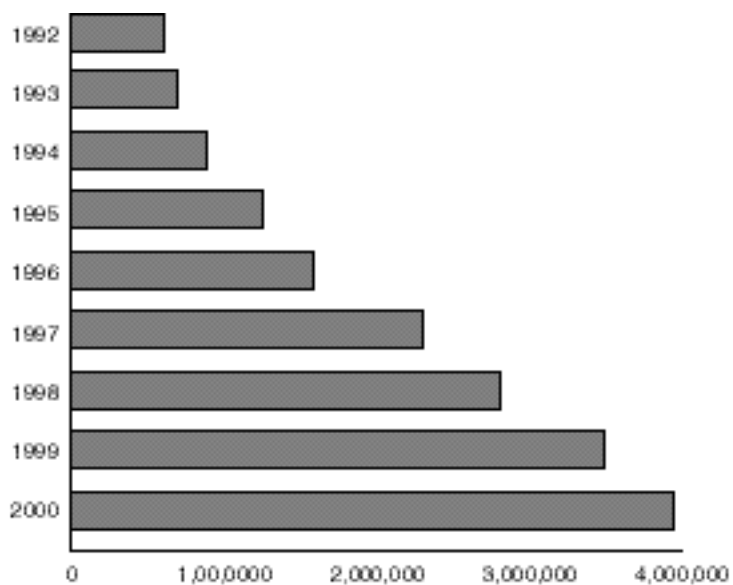
Third, there are many regional products in the EU which can earn a market premium because of their quality and reputation. These include: Belgian chocolate and Ardennes ham, Danish pork and blue cheese, Spanish chorizo and Serrano ham, Italian olive oil, Greek Kalamata olives, Scottish beef, English stilton cheese, French wine, and so on. Well established traditional markets should continue to thrive as rural tourism prospers but the range marketed must be varied and unique.

Some farmers and supermarkets in Europe believe that they can create a significant market for organic produce and the Fischler reforms would mean more support for organic farmers, at the expense of large intensive producers. Figure 3 shows the rise in the level of organic farmland in Europe. But, even with this support, organic production will be much more costly than conventional methods, and while some shoppers will pay a premium for the food they eat, the vast majority will not, unless it can be demonstrated that organic food has other product advantages, such as texture, flavour and safety. So far it has not been possible to demonstrate this. If too many farmers convert to organic, resulting in over-supply, premium prices will collapse. This has already happened in many organic sectors, with catastrophic consequences. In Denmark oversupply of organic milk has destroyed price premiums. Farmers should assess the business case for organic farming and avoid being beguiled by encouraging noises from retailers and organic farming evangelists.

European farmers can further exploit science, technology and co-operation in order to lower their market costs and increase outputs, although in the future the application of science and technology is more likely to strengthen the competitiveness of farmers in poorer countries,

who, so far, have been unable to afford the new technologies because of lack of cash (a situation that should be remedied by fair free trade agreements).

Figure 3: Organic land use and land being converted for organic use in the EU-15 member states (hectares)



Source: Adapted from figures produced by Nicholas Lampkin, Welsh Institute for Rural Studies, University of Wales

But it would be wrong to deny European farmers the right to use new technologies such as genetic modification if other countries legalised their use and the technology was considered safe and compatible with a sustainable environment.

Greater co-operation between farmers will further lower costs of pro-

duction and strengthen their position in the market. Farmers, in Britain particularly, who have been slow to realise the benefits of working together, must make co-operation a priority if they are to maintain or improve their competitiveness.

One remarkable feature of European agriculture is the enormous difference in performance between farmers operating in comparable conditions. Even in today's circumstances many farmers continue to be profitable whilst their neighbours are going out of business. If the worst-performing farmers were able to learn from the good practices of more efficient neighbours, they would not find themselves on the verge of extinction. This reluctance to learn from others arises in part from the culture of dependence, whereby many farmers believe that society owes them a living, however incompetent they may be.

European supermarket groups have been accused of weakening the position of farmers by abusing their buying power and by sourcing cheaper goods from countries with less demanding regulatory standards. Supermarkets should be closely scrutinised to ensure that they do not apply dual standards, and farmers, through co-operation, can strengthen their bargaining power with them. The fragmented catering industry is a more likely area for double standards and is harder to police, but regulatory agencies must do their best.

Finally, of course, if all else fails, EU farmers, especially the smaller ones, as well as enjoying generous social security and health benefits which are not available to the poorer countries, will continue to get direct payments from the taxpayer as long as they behave in a responsible manner. These obligations will not be arduous.

4 How governments can help

The European Commission, national and regional governments can also play their parts in helping farmers to reorganise their lives and cope with the future. In many countries, especially overpopulated ones such as England and the Netherlands, planning authorities resist farmers' requests to diversify, notably in the conversion of old buildings to different economic activities. Such requests should be reviewed more sympathetically so long as that they do not jeopardise the environment. Too much attention is given to the views of rural commuters and owners of second homes in the countryside who care little and understand little about the rural economy.

The Commission and national governments should be encouraging the migration of rural workers from Eastern to Western Europe – too often they appear to see this trend as a social threat rather than an economic necessity and opportunity. An adequate flow of immigrant labour is needed if labour intensive sectors of Western European agriculture are to survive.

The EU, for understandable reasons, has created a plethora of rural regulations to tackle pollution and raise safety standards. Some countries then apply these regulations in a rigid, bureaucratic manner. Two issues should be addressed. Firstly, is statutory intervention always the answer or can codes of best practice or some degree of self-regulation by farmer marketing organisations, especially the co-operatives, deliver the same outcome with less bureaucracy and cost? And secondly, should countries like Britain, who appear to enforce EU directives with too much rigidity, adopt an approach of light, flexible enforcement but underpinned by tough penalties for failure to comply (as the American tax authorities have done, with so much success, through the self assessment procedure)?

National governments can already give tax incentives for farmers to co-operate with each other, but more can be done, especially where, as in Britain, co-operation has not been very effective.

National and regional governments take different positions about the degree of support given to rural development and maintaining rural services, including public transport and retail services. France has always been generous in this respect. But the cost can be high in relation to the benefits achieved, so it is for national governments to decide whether subsidising the countryside, usually at the expense of the more deserving inner cities, is acceptable to them. In Britain, people in the countryside appear to prefer the nearest supermarket to the local shop.

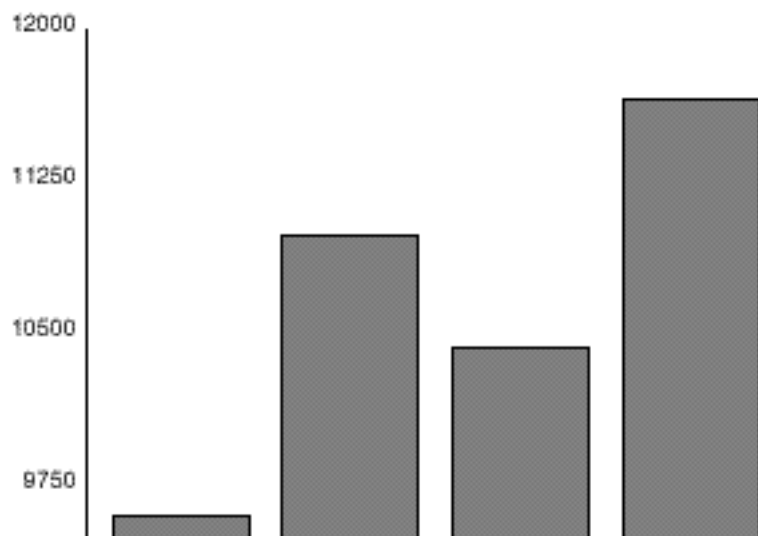
European farming activity is now as much about property management as it is about agricultural production. In densely populated countries and regions, the consistent demand for more housing and business sites forces land prices up, often making farming itself uncompetitive as a result. Farmers who find themselves in this situation can, within the constraints of sensible planning laws, supplement their farm incomes with selected land disposals. Those who want to retire can do so and be comfortable. Those who want to expand by acquiring more farm land can raise the necessary finance by disposing of plots of land, suitable for development, at very high prices. Some countries exempt their farmers from capital gains tax if they reinvest their gains in farm land.

The problems of tenant farmers vary from country to country, depending on their number and the nature of their statutory rights. In Britain, because the property benefits lie with the landlord rather than the tenants, the latter feel that their rents remain too high, and of course without land ownership, they feel very insecure. Landlords can also refuse to allow tenants to diversify their buildings and businesses without good reason. The statutory rights of tenants should be reviewed by national governments, in the light of changing circumstances, and as

there is also a human rights element and a state-aids issue, the European Commission might also take a view.

European farmers' own perception of their situation is both contradictory and self-destructive. On the one hand they complain that they are bankrupt, yet sales of farm machinery are buoyant in many parts of Europe. Figure 4 illustrates this trend in the UK. Many thought that British farmers who lost their livestock because of the Foot and Mouth outbreak would withdraw from farming, banking their generous compensation. Not a bit of it – the vast majority of them have chosen to restock, forcing the price of breeding stock up – which suggests that these farmers at least have confidence in the future, though many may not be able to contemplate a non-farming future. In October 2002, a British ram fetched £105,000 at a Scottish auction – a sum almost double the previous record.

Figure 4: UK agricultural tractor registrations



Source: AEA Economics Department

European farmers constantly demand more support from the state and the Commission, deliberately ignoring the vast scale of subsidies which they already receive (95 billion euros per annum). On that evidence, subsidies do not deal with the root causes of current problems.

Indeed, this culture of dependence, which prevails throughout the European countryside, is part of the problem. Reliance on state hand-outs undermines enterprise and promotes inertia. The recent Curry report on the state of British farming made many good points, but the easiest thing to agree among the disparate commission members (farmers, retailers, environmentalists, consumers) was that the state should provide more money which, somewhat surprisingly, it did.

European, state and regional support for agriculture and rural communities will continue to be generous, albeit switching from distorted market subsidies to encouraging good environmental practices, but economic purists might argue that farmers should be regulated but not paid to comply with good practices. Why should farmers deserve special treatment? The answer is that in the EU the citizens value a well-maintained countryside and appear to be prepared to pay farmers to do that (see Table 1). Second, in Scandinavia and France there is a strong sense of social solidarity with the countryside. This scarcely exists in England. Third, other rich countries, especially in North America, will probably go on making payments to their farmers, so European farmers should not be unfairly disadvantaged. Fourth, whilst opening up European markets to farmers from the developing world, there is a case for giving support to EU farmers to mitigate the many competitive disadvantages they will be faced with – cheaper labour, lower regulation costs and so forth. For all these reasons the EU will treat its farmers differently from beleaguered textile workers.

A final challenge, in moving from a market support to an environmental support form of subsidy, is to ensure that the vast amount of

money available ends up in the hands of farmers. Under the present system, up to 20% of the funds are siphoned off by middle-men and bureaucrats. If that situation can be resolved everyone except the middle-men will be better off. But there is a danger that environmental bureaucrats will absorb far too much of the environmental budget.

It is essential also that farmers are seen to be earning environmental subsidies, and are not merely paid to 'exist'. They will have to demonstrate that they are being actively productive as environmentally responsible farmers, if they are to receive support. That may be difficult to achieve on remote farms with poor growing conditions. Here, unless special help is made available, farming will cease and the land left derelict. This is already happening in parts of the French Massif Centrale. Taxpayers have to decide whether or not they want this trend to be arrested.

Table 1: Public opinion on the aims of the CAP

Percentage of people surveyed agreeing that the CAP should 'promote respect for the environment'	
Italy	99
Finland	98
Germany	98
Ireland	98
EU-15	97
Portugal	97
Spain	97
United Kingdom	97
France	96
Luxembourg	96
Sweden	95
Denmark	94
Greece	94
Belgium	93
Netherlands	91
Austria	90

Source: Eurobarometer Flash Survey No. 85, November 2000

5 Conclusion

Farming, like any other industry, must be prepared to rethink its strategies, its way of operating, and its structures in order to cope with the changing circumstances. The Fischler proposals, and a WTO settlement promoting fair global trade in food, create massive challenges for European farmers, as does the arrival of eleven new member states with a large, if antiquated agricultural sector. Many of the trends which are already happening – part-time farming and rural diversification – are welcome, necessary and should be encouraged to develop.

Those who believe, as many conservationists in Britain do, that the future of farming is all about reviving the past are mistaken. For all its shortcomings European agriculture is in much better shape than it was in the pre-war era. Farmers are also more environmentally responsible than a generation ago. We must encourage that improving trend.

It could be argued that, in an unprotected free market, EU farmers might suffer the fate of the mining, ship-building, and textile industries. But I think not. For all the reasons I have given there will still be a huge demand for European farm products, and European taxpayers seem to be prepared to support the persual of good environmentalist practices on farms.

The greatest threat for the future lies with the farmers themselves. If they reject change, including the need to abandon the culture of dependence, then the long term erosion of their position will only accelerate. But if they embrace the necessary changes, they can arrest the decline and face the future with some optimism. There is no future in retaining the status quo.

Most farmers would also recognise that the reasons for these radical reforms – enlargement of the EU and fair trade in food – whilst being painful for them in the short term, will bring important and wider benefits to the new members and the poorer countries. But they will also bring indirect but real benefits to the farming community. As consumers themselves, farmers will benefit from a wider, stronger single European market. And the most crucial objective of these policies, to increase global prosperity and political stability, is as important to farmers as it is every other citizen of the EU.

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